A VoIP-Specific Rate Will Halt Rural Broadband

On Behalf of the Nebraska Rural Independent Companies
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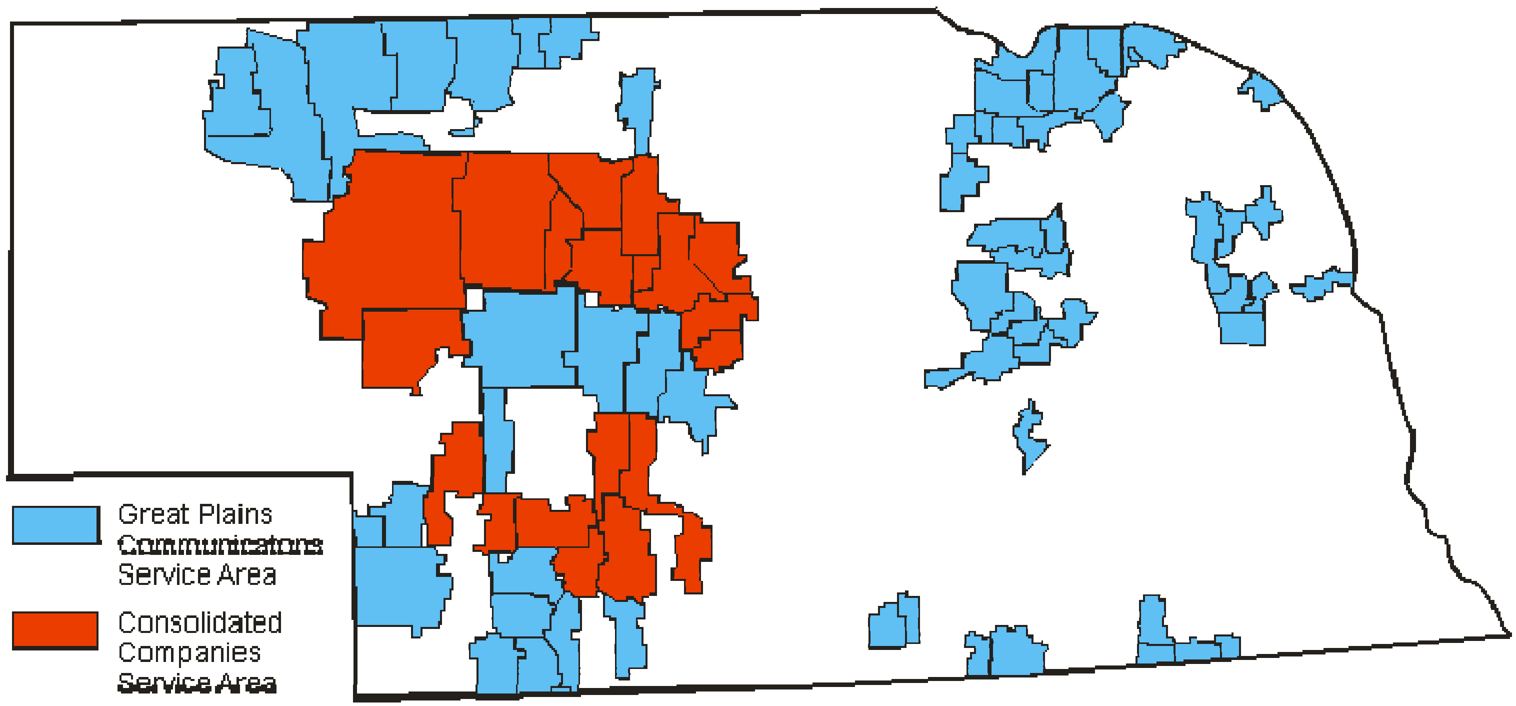
Together Great Plains and Consolidated Serve 29% of Nebraska's Land Mass



Great Plains – 1.84 customers/sq. mi.
14,000 sq. mi. served

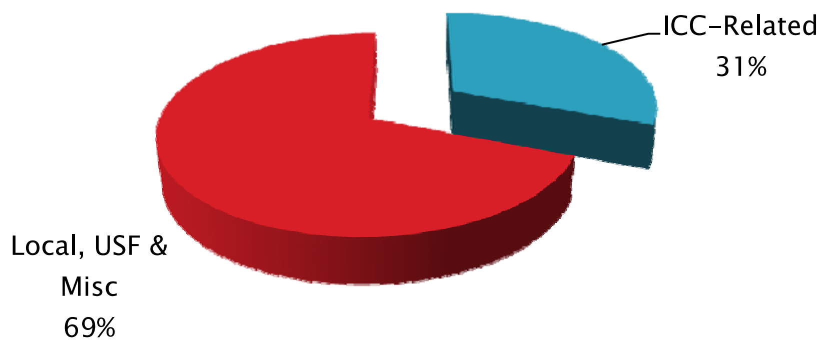
Consolidated – 0.56 customers/sq. mi.
8,900 sq. mi. served

Network Builders versus Network Users

- There are two competing interests regarding rural per-minute ICC:
  - Network Builders (who want fair compensation for use of their facilities)
  - Network Users (who want to make money off of others’ networks, without adequate payment)
- In rural areas,
  - There is a smaller customer base and less density, which makes the customers more costly to serve.
  - For both of these reasons, rural customers are less valuable to the large, integrated carriers.

ICC-Related Revenues Remain an Essential Component of Cost Recovery

Nebraska Rural Independents' ICC-Related Revenues Are Significant

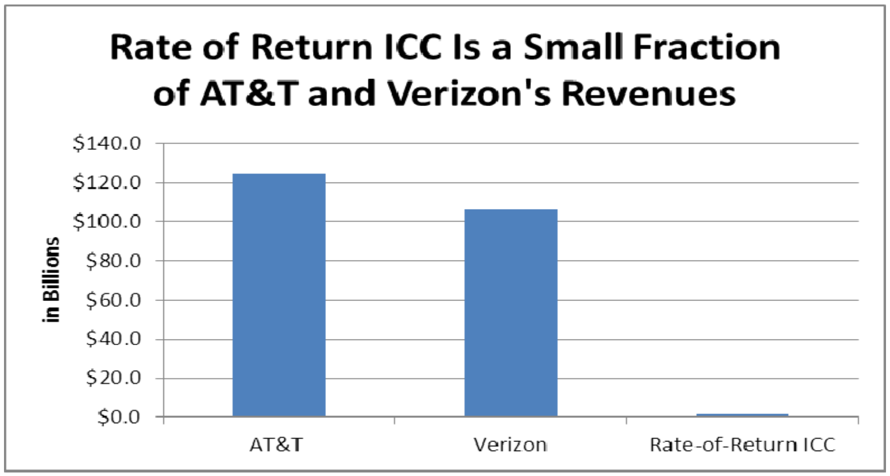


Category	Revenues (in millions)
ICC-Related	$39.4
Local, USF & Misc	88.8
Total Regulated	$128.2

- 31% of Nebraska Rural Independents' revenues are ICC related.
- Remove those revenues and rural broadband deployment will halt and some rural carriers may go bankrupt.
- The end result will be less infrastructure and substandard service in the extremely rural areas.

Switched ICC Charges Are *Not* An Impediment to the Transition to IP

- Under current regulation, the IP market is growing rapidly.
- Investment in rural broadband was possible, in part, because of revenues from switched ICC.



AT&T and Verizon 2010 revenues show that the ICC dollars at stake are *very small* compared to the rest of their business.

- There is no legal or policy basis for applying a zero or an extremely low rate to VoIP-PSTN traffic. Under any credible methodology, a rate of $0.0007 or thereabouts is far below cost for most, if not all, **Network Builders**.
- Given limitations to federal and state USF, maintaining cost-based ICC is critical to maintaining investment.

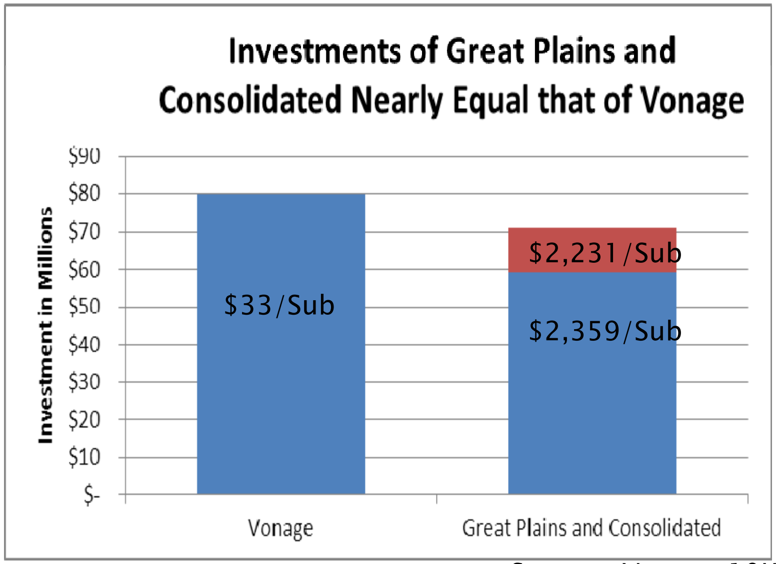
A VoIP-Specific Rate Will Flash Cut ICC Reform and Halt Broadband Deployment

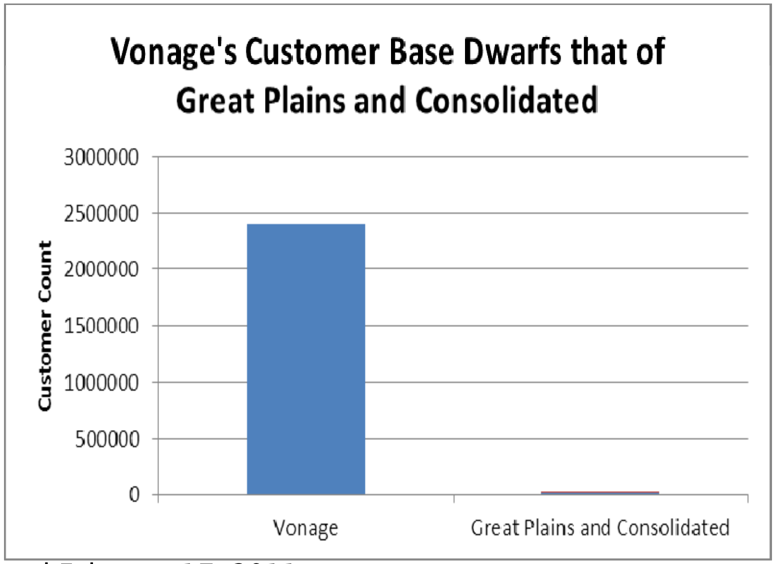
- No carrier can distinguish VoIP traffic from other PSTN terminating traffic.
- All carriers will declare their traffic VoIP, if VoIP ICC rates are artificially set below cost.
- Treating VoIP traffic differently than all other switched traffic on the PSTN will disrupt phased, orderly ICC reform, resulting in flash-cut rate reductions.
- State universal service fund contributions will be imperiled if VoIP is declared to be 100% interstate.

Traffic Can Be Jurisdictionally Separated

- Wireless carriers can submit traffic studies for "safe harbor" purposes, thus proving they can determine a call's jurisdiction.
- If traffic were non-severable, this Commission's action in the NPSC/KCC Declaratory Ruling allowing carriers the alternative of submitting traffic studies in lieu of accepting a "safe harbor" percentage would be meaningless.
  - This Commission stated "that it is possible to separate the interstate and intrastate revenues of interconnected VoIP providers for purposes of calculating universal service contributions."

VoIP Services Don't Exist Without Our Broadband Networks





Source: Vonage 10K dated February 17, 2011

- Linear density is the biggest driver of cost.
- Claims of ICC curbing VoIP Investment are exaggerated.
- Over-the-top VoIP providers have little infrastructure—none in rural areas; thus, they are purely <u>Network Users</u>.

Vonage Confirms Reliance on Others' Networks and Shift to International Focus

"Our ability to provide our telephony system and manage related customer accounts is **dependent upon third-party facilities, equipment, and systems** …"

"The success of our business relies on customers' **continued and unimpeded access to broadband services** …"

"During the past 18 months, we began **shifting our strategic emphasis** from the traditional mass domestic home phone market to international long distance markets…"

Source: Vonage 10K dated February 17, 2011 (emphasis added)

Recommended Treatment of Interconnected VoIP

- Interconnected VoIP should be classified as a telecommunications service.
- VoIP traffic using the PSTN should pay the appropriate ICC rate based on the calling and called party numbers of each call.
- Interconnected VoIP rates should be based on the cost of the facilities used, i.e. the <u>Network Builder</u> costs.

Customers in Early Adopter States Should Be Treated Fairly

- If the Feds fund revenue shortfalls from ICC reform without state participation, customers in early adopter states will be wrongly penalized:
  - Higher benchmark levels
  - State surcharge for state ICC reductions
  - Federal surcharge for other states' ICC reductions
- Net payer states should only be asked to fund after other states have taken appropriate actions.
- If the wrong actions are taken, states with funds will want to dissolve their funds and raise ICC rates.
  - $1.5 B in 21 state high-cost USFs

Federal Matching Can Encourage States to Establish Funds and Unify ICC rates

- Transition intrastate rates to interstate levels over 4 years in equal steps.
- Replacement revenue sources should include state USFs, higher local rates or both.
  - Federal law envisions joint responsibility
  - Federal funding sources are insufficient
- Condition matching federal funds on state compliance, e.g. federal highway.
- At the end of a transition period, allowing time for implementation, federal support will be reduced if states fail to act.

Policies that Will Not Encourage State Action

- A revenue benchmark creates equity among states, but does not incent the creation of state funds.
- Rewarding early adopter states by initially directing CAF to those states will not encourage the creation of state funds.
- An insufficient state contribution base will limit a state's ability to create a fund.
  - The FCC declared broadband Internet connections to be 100% interstate.
  - NPSC/KCC VoIP Order allowed an intrastate safe harbor of 35.1%.

Matching Funds Can Be Implemented on a Per Line, Per ETC or Per State Basis

- Incremental federal funding would be a percentage of the state per line contribution, with a maximum state contribution per line.
- Hypothetical Example: A company receives $7/line in incremental support. A state fund supplies $2/line + 35% of the cost above $2/line up to a maximum of $10/line.
  - State funding = $3.75/line; Federal funding = $3.25/line
- A per line match equalizes the contribution burden between large and small states.
- By application of benchmarks and earnings limits, some states will not need to create funds.

A Low or Zero VoIP-PSTN Rate will Flash Cut ICC and Halt Rural Broadband Deployment

- A VoIP-specific rate will be devastating for rural consumers.
  - Terminating VoIP traffic cannot be distinguished from other PSTN traffic
  - Network Users will self declare all traffic to be VoIP, thereby eliminating significant revenues for Network Builders. As a result, rural broadband deployment will halt.
  - Contrary to what the FCC has told the industry and Wall Street, a low VoIP-specific rate will result in flash-cut reform.
- Customers in early-adopter states should not be disadvantaged.
  - Not recognizing early-adopter issues will cause those states with funds to eliminate them – exactly the opposite of the FCC's intent.
  - Benchmarks will address rate comparability, nothing more.
  - State roles and responsibilities will be recognized by requiring state matching – and will encourage ICC reform and the creation of state funds.
- ICC and USF reform must be a legal, balanced partnership between the FCC and state commissions.